

Approved For Release 2000/08/30 : CIA-RDP80R01443R000300140021-2

Office of Current Intelligence
5 November 1954

PART I. Nature and Potential of the Opposition in Hungary

Political and economic conditions in Hungary today are more critical than in any other Satellite. The new course, launched in July 1953 to overcome the economic and political problems created by the regime's previous emphasis on rapid industrialization at the expense of agriculture and the consumers' goods industries, has in fact intensified these problems. The regime's new economic policies are failing, high-level dissension has developed within the party, popular apathy has grown and overt resentment has increased.*

Opposition to the regime in Hungary springs from two major sources - from the masses of the population and from dissident elements within the Party. New course policies have created or encouraged resistance in both groups. Neither group is capable of overthrowing the Communist regime, but either can impede its effort to build a strong and viable economy.

Differences appear to exist among the leaders of the Hungarian Workers' Party over the implementation and objectives of the new course. Some doctrinaire Communists, possibly including Party First Secretary Rakosi, apparently regard the

*A more complete analysis of the current economic and political situation is attached in Annex A

present program as a fundamental tactical mistake and believe the government is abandoning the proletariat and creating bourgeois conditions in the countryside. This high-level dissension has added to the considerable confusion created earlier in the party ranks by the new course, and the party today is probably in ideological shambles. The party membership was inflated too much in too short a time to be well-grounded in tactics; approximately 95 percent of its 864,000 members and candidates have joined since the war. Until June 1953, these new members were trained exclusively in Stalinist theory and practice, from which the present policies are a radical departure.

While confusion among the party rank and file is probably widespread, and the majority lacks conviction that the new course policies are permanent, the extent of high-level dissension is not known. Moreover, the opposition group within the Party has no desire to overthrow Communist rule. It probably believes that the new course is doomed to failure and that the Russians will be forced to permit Hungary to revert to the harsh policies that the opposition espouses.

The popular resistance which exists in Hungary is unorganized and passive in nature. It is manifested in peasant resistance to crop collection quotas, withdrawals from collectives, absenteeism, shoddy workmanship, and resistance to the regime's efforts to reassign laborers to essential industries and agriculture. The regime's economic concessions, combined with some relaxation of

-3-

police controls, have encouraged the people to feel freer to manifest overt hostility toward their Communist rulers. The general populace, aware that only their co-operation can make the new course succeed, apparently believes that the regime will grant additional concessions, if necessary, to obtain it.

This popular resistance is spontaneous and cannot be transformed into an adequately organized movement capable of overthrowing the Communist rulers without effective and large-scale outside direction and assistance. No semblance of the formerly powerful political parties remains. The Social Democratic Party has been purged and assimilated into the Communist Party, and all other political parties -- including the once powerful Small-Holders (Peasant) Party -- have been abolished* The leaders of these parties have long since been forced into exile, executed or imprisoned.

The Hungarian trade union organization was seized by the Communists immediately after the war and is today completely dominated and controlled by the party. The previously powerful Catholic Church has been crushed, and today the party and government control every organ of public expression. There is no evidence that the loyalty or the reliability of the army and security forces have been weakened in recent months.

* In the last free national election held in November 1945, the Small-Holders Party received 57 percent of the votes, the Social Democrats 17.4, and the Communist Party 17 percent.

-4-

The Patriotic Peoples Front, which the regime has recently established to encourage wider popular participation and support for the new policies, is a mass organization completely dominated by the Communist rulers. Its leaders are Communists and all the organizations which it embraces are Communist controlled. Thus, while it is intended to include representatives of all segments of the population, it does not have the potential for developing into an anti-regime organization.

Present opposition thus presents no real threat to Soviet domination. It does, however, pose a serious dilemma to the USSR in that Soviet objectives under the new course -- a strong economy and a reasonably contented population -- cannot be achieved without the full support of the party and the co-operation of the populace. The harsh policies followed under Stalin were abandoned in 1953 because they had failed to obtain these objectives, and there is no reason to believe that these policies would now succeed if Moscow permitted the Hungarian regime to revert to them. It would appear, therefore, that although the forces of opposition in Hungary could not at present be exploited to cause the collapse of the Communist regime, they might profitably be fostered as a means of keeping the regime off balance and frustrating Moscow's aim to make Hungary an effective contributing member of the family of Satellites.

25X1C10b

Approved For Release 2000/08/30 : CIA-RDP80R01443R000300140021-2

Next 4 Page(s) In Document Exempt

Approved For Release 2000/08/30 : CIA-RDP80R01443R000300140021-2

~~SECRET~~

Attach to: OOI-1785

Approved For Release 2000/08/30 : CIA-RDP80R01443R000300140021-2

Office of Current Intelligence
5 November 1954

ANNEX A: The Economic and Political Situation in Hungary

The Hungarian regime's current difficulties stem largely from its halting and confused implementation of the new course, which was launched in July 1953 to meet a cumulative crisis by restoring the economic balance between town and country. Since mid-1953 there have been three cutbacks in industrial production targets, which have been reduced from a projected rate of expansion of 16 percent early in 1953 to less than 1 percent today. Even after these cutbacks, steel production is nearly 90,000 tons behind the present schedule, and coal arrears -- growing by about 50,000 tons a week -- now total 450,000 tons. Unless these shortfalls are made up, there will be a lack of heat for the people this winter, and there can be no significant increase in consumer goods production.

In an attempt to reduce the swollen bureaucracy, large numbers of office personnel have been fired in recent months, and unemployment has reached approximately 200,000. While this represents only a small percentage of the labor force, the regime apparently has no plans for alleviating the situation in the near future. Since unemployment is theoretically impossible in a socialist state, it represents a major problem for the regime.

Agricultural output has also failed to meet plan goals; near-chaos resulted when approximately 40 percent of the peasants, upon being told that they could leave the collectives at the end of the 1953 harvest, immediately left the collectives while harvesting was still in process. In addition, deliveries of many important types of agricultural machinery have been 50 percent behind schedule this year.

The clearest picture of the deteriorating economic situation was revealed by the report to a Hungarian central committee meeting held from 1 to 3 October 1954. According to this report, the failure of the planned increases in investments in the agricultural and consumers' goods sectors was a major factor in the regime's inability to reach plan goals. In spite of a reported 40 percent cutback in total investments, allocations continued along the line established before July 1953. Further evidence of this deterioration is seen in admission of a 3.3-percent decline in labor productivity in the first eight months of the year as compared with last year, while production costs rose by 2.8 percent in the first half of 1954. Since the income of the workers rose by 15.8 percent and consumers' goods prices were reduced by 8.3 percent during this period, inflationary pressure was kept under control only by living off inventories, an admittedly temporary expedient.

The Hungarian forint has already lost about two thirds of its original purchasing power since the last currency reform

~~SECRET~~

in 1946.* Further inflation might necessitate another currency reform, which would result in increased disaffection and possibly riots on the part of the population.

The new course policies have stirred up serious dissension and confusion within the party, and economic failures are partly attributable to the party's vacillation and indecision in implementing the program. Many Hungarian Communists--probably including Party First Secretary Rakosi--have regarded the new course as a fundamental tactical mistake since its inception. They think that the government is forsaking the industrial worker for the peasant and creating bourgeois conditions in the countryside. Since Premier Nagy's speech last month blaming Rakosi's one-man leadership for Hungary's past mistakes, it appears that Rakosi may now be in serious difficulties. He has made no public appearances for over a month, and has not participated in the recently intensified efforts to sell the new course to the party and people.

The concessions granted to date to overcome popular apathy and hostility to the regime, including some relaxation of the ubiquitous vigilance of the security police, have only encouraged

* The official rate of exchange as decreed by the Hungarian government is 1 forint = \$.085. However, this is a purely fictitious rate which vastly overvalues the forint, and the lack of any conversion ratio makes an estimate of the true value of the forint impossible.

the populace to press for additional concessions and manifest more openly its antiregime attitude. Last summer for the first time in several years there were public anti-Soviet and anti-regime demonstrations in Budapest. For example, at the International University games in Budapest, the Hungarian crowd cheered the opponents of the Soviet soccer team but sat on their hands when the Soviet team scored. On the other hand, employees of the United States legation and the American flood relief survey team have been accorded friendly demonstrations.

Following several months of indecision in the face of mounting problems, the regime has recently announced its determination to push forward the new course program, and has hinted at larger material incentives for workers and peasants. A new regime-controlled mass organization, the Patriotic Peoples' Front, has been established to encourage wider popular participation and support for the new policies and to channel and give expression to some discontent and nationalistic feeling. The Front will play a key role in the nomination of local councils candidates who are to be elected on 28 November. Thus, the people, by their participation in the Front, will presumably have a greater role in the selection of the candidates which will be presented to them on 28 November.

In an apparent effort to create the impression that the government is now placing Hungarian interests above those of

the USSR, party leaders are criticizing the regime's past policy of unimaginatively applying Soviet methods in Hungary, and some former Socialists and Communists, purged in recent years for national deviation, are being released from prison and reinstated in public office. Ex-Politburo member and Minister of Interior Kadar was restored to a moderate position in the party last month and there have been reports that former foreign minister Kallai and other officials, purged in 1950 and 1951, have been released from prison.

In recognition of the fact that many important raw materials needed to carry out its industrial and consumers' goods program are available on advantageous terms outside the Orbit, the regime is attempting to expand its trade with non-Orbit countries. Special attempts are being made to expand trade with the Middle East and Latin America, which in the last few years have each accounted for about 8 to 10 percent of Hungarian foreign trade. Hungary hopes to be able to utilize its excess heavy industrial capacity in producing for export to these areas, and receive in return industrial raw materials, textile fibres, and agricultural products.

A reliable high-level Hungarian trade representative who travels abroad has stated that Hungarian trade representatives at a July conference were informed that easier payment terms are to be considered for buyers of capital goods. The trade representatives were told that unless more foreign orders were

-6-

received for certain heavy industrial products the factories producing these items would be forced to lay off part of their workers. Any such action would further alienate the industrial proletariat, the main support of the regime among the people. While the USSR and the Satellites could provide the necessary markets, it could require the readjustment of Orbit internal economic plans and a reversion to the pre-new course pattern of trade.

It does not appear likely that the regime's liberalization measures will succeed either in winning the support of the people or overcoming opposition within the party. The populace faces extreme hardship during the interim transition period this winter, and there is no assurance that the people will not interpret concessions as a confession of weakness and demand still greater ones.

Since the present opposition within the party is composed of doctrinaire Communists who wish to return to the pre-new course policy, it has the support neither of the people nor of the USSR upon which it must rely to obtain its Stalinist objectives. For the present it is clear that the moderate program of the regime is supported by Moscow. While popular opposition to the regime has become more overt, owing primarily to a relaxation of harsh police controls, it is unorganized and incapable of overthrowing its Communist rulers. In the face of the two Soviet mechanized divisions totaling 30,000 troops and three air divisions stationed in Hungary the prospects for any popular uprising appear small and are certain to fail.